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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
Access Charge)	CC Docket No.
Reform)	96-262

Joint Comments on Access Charge Reform of:
American Association for Adult and Continuing Education; Association for Gerontology and Human Development at Historically Black Colleges and Universities; ConnectMissouri; Missouri Center on Minority Health and Aging; National Association of Commissions for Women; National Association of Development Organizations; National Farmers Union; National Hispanic Council on Aging; The National Trust; National Latino Telecommunications Task Force; Barbara O'Connor, CoConvenor of the Consumer Summit and Professor of Communications, California State University, Sacramento; Presidents' Club for Telecommunications Justice; United Seniors Health Cooperative; United Homeowners Association; Virginia Public Interest Coalition; and the Universal Service Alliance.

SUMMARY

The Commission's rulemaking proceeding on Access Reform must go beyond its stated goal "to end up with access charge rate structures that a competitive marketplace would produce." The Commission must remember its primary responsibility to advance affordability and accessibility of a ubiquitous, advanced network for all Americans and guard against creating a marketplace that benefits Wall Street at the expense of Main Street.

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To that end, the Commission should ensure that its actions accomplish three broader objectives: Access reform rules should provide a reasonable transition from a regulated to a competitive marketplace; Changes in access fees and rules should not put upward pressure on local rates; and access rules must maintain and respect incentives to regularly upgrade the local network.

The Commission's proposals in the NPRM offer a few good ideas, but generally moves in a direction counter to these objectives.

- We support the Commission's proposal to calculate some of the carrier common line charges on a flat rate basis, rather than a per-minute of usage basis because of its potential to reduce long distance rates to consumers and to foster increased competition.
- However, we believe the Commission needs to go one step further and mandate a dollar reduction in basic long distance rates to all consumers for every dollar reduction in access charges.
- We support the Commission's proposed market-based path to access reform because it would avoid the dangers presented by a "flash-cut" that could accompany the prescriptive route and provides a mechanism for rates to come down as a result of competitive forces instead of being driven by theoretical, untested cost models.
- We strongly oppose the Commission's proposal to raise subscriber line charges on additional lines. We recommend the Commission consider reducing the SLC and collect any differences from the new flat-rated access charge. Maintaining the local loop is, and should remain, a shared responsibility. Lowering the fees to long

distance companies and raising them for consumers wrongly shifts much of the burden of the local loop onto residential and small business consumers.

- No changes should be made to the allocation of costs of the local network to interstate rates, which has been carefully crafted to enhance affordability and accessibility. Any necessary changes should be determined by the Joint Board on Separations.
- Access reform must maintain incentives to invest in the local network by designing mechanism to recover embedded costs from long distance companies and new competitors. The embedded cost issue is the result of previous Commission decisions and agreements with the LEC's that produced lower rates and implied incentives to invest in the network. Denial of or inadequate recovery would undermine those incentives and put upward pressure on local rates.

I. Introduction

In its Notice of Proposed Rulemaking in the Matter of Access Charge Reform, Docket No. 96-262, the Commission initiates a comprehensive review of the current access charge regime and proposes a series of reforms that could have dramatic effects on the affordability and accessibility of the telecommunications network for all consumers. For this reason, we are pleased to submit comments to the Commission on several key issues raised in the NPRM. A full description of the endorsing groups is attached.

These organizations submit these comments to further the promise of a competitive telecommunications market. Access to the new era of telecommunications with the promise of increased health, education and community benefits are as critical today as was access to the old rotary-dial telephone in an earlier era. Traditional telephone service has always been understood to be an essential lifeline to the world for all people, especially those in special circumstances such as older Americans, people with disabilities, and rural Americans. While each of our constituency groups has its own unique concerns regarding access to advanced telecommunications, we share a strong commitment to ensuring affordable access to advanced services for all consumers. Many of our constituents face several potential barriers that may keep them from taking advantage of advanced telecommunications. Affordability is a primary issue that is shared by a growing number of our members and constituents. As we enter the 21st century, we are also entering an era in which telecommunications and technology is increasingly a prerequisite to education, employment, training, commercial activity,

health care, community building, civic participation and other ways people contribute to society.

Virtually all people in the United States participated in the building of the existing network. Throughout this century the telephone network was built and maintained using a complex system of financial support mechanisms to guarantee affordable local telephone rates and to extend the concept of universal service. Access charges have been an integral component of this system whereby revenues accruing from long distance calls have helped to maintain affordable local service. Today, the nation is moving toward reforms of the old system of financial supports and the removal of implicit mechanisms in favor of explicit mechanisms compatible with a competitive marketplace. This must be completed with care. It is wrong to assume that the policy goals associated with creating a competitive environment that will draw in new competitors will also serve the policy goals of ubiquitous, affordable access for all consumers. These are two separate policy goals, and the commission's proposals should be scrutinized for how well they advance each goal.

As the Commission implements the Telecommunications Act of 1996 it must bear in mind the primary goal of maintaining local telephone service for all Americans. As competition develops in the marketplace, it is also essential that public policy be driven by a goal of achieving ubiquitous, affordable access to the most modern, high capacity, switched digital network that will enable every home and business to send and receive video, voice, data and graphic content. Substantial progress toward meeting the goal of ubiquitous and affordable access can be achieved in this proceeding, along with the

Commission's proceedings on interconnection and universal service. These three proceedings form the three most important parts of the Commission's regulatory policy designed to implement the mandates of the 1996 Telecommunications Act.

II. The Commission Objectives for Access Reform

The Commission's stated goal for this proceeding "is to end up with access charge rate structures that a competitive market would produce."¹ We suggest that there are several different roads that the Commission should choose to arrive at this goal, and that the Commission should select the road that produces the least bumps, detours, dead-ends and other obstacles for all consumers, especially those at risk of not being able to fully benefit from competition.

- 1. Access reform regulations should provide a reasonable transition from regulated to a competitive marketplace;**
- 2. Access fees and rules should be changed in ways that do not put pressure on local rates; and**
- 3. Continued investments to maintain and regularly upgrade the local network should be encouraged.**

Keeping these objectives in mind will take the Commission toward a public policy that will benefit all users in all geographic locations, instead of a competitive market that benefits high volume, big business users at the expense of residential and small business consumers in rural and urban areas or others with unique consumer characteristics.

¹ NPRM ¶ 13, pg. 9

1. The Commission should ensure a reasonable transition between a regulated and competitive market.

The Commission's intention to end up with access rates that a competitive market would produce should not lead it to set those rates in anticipation of a market that does not yet exist. Indeed, no one, including the Commission, can anticipate the precise shape and development of that competitive market and create it by regulatory fiat. Consumers will be best served by a rate structure that creates a smooth transition to a competitive market. The need for an appropriate transition from a regulated market to a competitive one is important with respect to access charges because of the role access charges have played in maintaining accessibility and affordability, particularly for residential ratepayers. Helping to shape that transition is the vital role of the FCC. Of the options proposed by the Commission, we support two that would push access rates toward competitive levels in a reasonable period of time. We support the Commission's proposal to change the way carrier common line (CCL) charges are assessed from a per minute of usage basis to a flat rate charge. In addition, we support the use of the "market-based approach to rely on potential and actual competition from new facilities based providers and entrants purchasing unbundled elements to drive prices for interstate access charges toward economic cost." ²

We support the FCC's proposal to calculate the CCL on a flat rate basis instead of a per minute of usage basis because of its potential to reduce long distance rates to consumers and to foster increased competition. The proposed change in calculating the

² NPRM, ¶14, pg. 10

CCL on a flat rate is an appropriate step toward the FCC's stated overall goal "to end up with access charge rate structures that a competitive market for access services would produce." The Joint Board's proposal to recover costs from the IXC's on a per line, flat rate charge would avoid the economic inefficiency created by recovering non-traffic sensitive costs on a per minute basis. Currently, long distance companies pay access charges on a "per minute of usage" basis. The FCC proposes changing that assessment to a "flat rate." That change alone could result in millions of dollars in access charge reductions annually. This change makes sense in a competitive market and has the potential to reduce consumers' long distance rates, if the long distance carriers "pass through" these savings.

The Commission should go a step further to insure that the reduction in access charge does indeed result in a lowering of long distance rates for consumers. The Commission should mandate a dollar reduction in basic long distance rates to all consumers for every dollar reduction in access charges. Access charges have been going down, in real terms, for the last decade, while long distance rates have continued to rise. The long distance companies have not rushed to pass these savings along, especially to residential users. This deprives consumers of the intended benefits of past FCC actions and the benefits of competition. In a notable example, AT&T refused to pass along the full \$680 million annual reduction in access charges in May 1995, as prescribed by the Commission. AT&T kept \$330 million the first year and passed \$350 million in savings

to consumers through a three month extension of its discount calling plan. Since then AT&T has pocketed the full \$680 million every year thereafter.³

We support using a market-based approach to move toward lower access charges.

The Commission has proposed two paths to access reform. One path, called the "prescriptive" path could include a "flash cut" in the amount long distance companies pay in access charges, and would give the Commission a direct role in determining the amount and timing of future changes in access charges. The alternative path is a "market-based" path that would not dictate a flash cut, but would let access charges move downward under the Commission's price cap rules and emerging competition in the market.

The market-based approach, coupled with the change in calculation of some of the charges from per minute to a flat rate, will allow rates to fall naturally. Conversely, a prescriptive approach would be based on theoretical, untested cost models that may underestimate the real cost of the network. If the access charge revenues are not enough to cover real costs, the LECs will be forced to substantially reduce investments in the network or ask state commissions to increase local rates to make up the difference. This approach could cause increases in local rates.

In addition, a major part of access reform is discovering what part of access charges has been used to further the public policy goal of affordability for local service. This goal reinforces the relationship between the reform of access charges and the new universal service fund. Since the universal service fund is expected to be completely

³ "AT&T to Pass \$350 Million in Savings on to Consumers," Wall Street Journal, May 19, 1995

revised and the size of the fund is yet to be determined, questions exist about how well it will work to support local rates. A gradual reduction in access charges will give regulators a chance to evaluate the effectiveness of the universal service fund, without immediately removing all the contributions access charges may be providing to local service.

2. The Commission should reform access charges without putting pressure on local rates.

Consumers reasonably expect increased competition to mean lower rates -- on their local and long distance phone bills. Universal service means much more than providing directed subsidies to low income users. Universal service, in the Telecommunications Act of 1996 and in our national policy until that point, has meant pricing telephone service to be affordable to all people in all geographic areas.

Several issues in the NPRM raise concerns about affordability. The flash cut that would come with the prescriptive approach discussed above could force state commissions to raise local rates to recover that portion of the access charge that had previously been used to support local rates. But this is not the only threat to affordable service hiding in the Notice: the proposal to raise the Subscriber Line Charge (SLC) on second, and third lines and second homes would add a direct rate increase to many consumers; prohibition of or inadequate recovery of embedded costs would force state commissions to raise local rates to make up the difference; and any changes in the separations process that could assign more costs to the states could force local rates up.

The proposed increase in the SLC would have an immediate effect on local phone bills and should be rejected. The Commission's proposal to raise the subscriber line charge is in direct conflict with the intent of the Joint Board's Recommendation to lower the SLC. The Commission sidesteps this fact by adding the increase on "additional lines" into a home or business. This proposal is moving in the wrong direction on a number of levels. First, the end-user should not be asked to pay more for access to the network while long distance companies are being asked to pay less. Maintaining the local loop is, and should remain, a shared responsibility between the end-user, the local phone company and the long distance company. We are concerned that the long distance companies may be looking for big savings in their costs at the expense of residential and small business consumers. We suggest that the Commission consider reducing the SLC and, if necessary collect any differences in required funds from the proposed new flat rate access charge.

A SLC increase on "additional lines" is problematic. Determining which line is the primary line is not a simple task. Multi-family residences often contain more than one line because they contain additional people who are responsible for those lines. Determining who pays the SLC increase would be difficult for the LEC's and confusing and burdensome to the consumers. Also, second lines are often important or essential for the use of new information technologies that a competitive market offers. Homeowners will add a second line for a home-based business to telecommute or to allow children and teenagers to use their computers without tying up the primary voice line. Increasing the

cost of access to those lines does not advance the goal of making advance telecommunications affordable to all people.

As an example, we point to the situation of Fred Fay, a disability activist in Concord, Massachusetts, who is functions completely from his bedroom in his home with two residential lines. Mr. Fay is unable to sit up because of his disability. Because he has his two phone lines, and two personal computers with a modem, Mr. Fay maintains an email listserv that reaches activists with disabilities across the country and is in constant contact with disability activists and organizers from all states. He is, arguably, one of the most effective disability rights advocates in the nation. His use of two telephone lines is essential to maintain his level of activity. It would be a hardship for him to pay for a higher SLC for the second line, as he subsists on disability benefits. In fact, he might have to do without a second line altogether if the costs were much higher. This example may be dramatic; we include it to argue that many second lines are used for important and sometimes essential purposes.

The Commission should design a mechanism to recover embedded costs and thereby avoid pressure on local rates. An integral part of the Commission's proposal for reducing access charges is changing the way the local phone companies estimate their costs for use and maintenance of the network. The move toward a more "forward looking" model of accounting should not deny local companies the opportunity to recover the local company's investment in the embedded costs. Depreciation schedules mandated by the Commission and state regulators have been considered in the pricing of network services. Longer depreciation were part of the regulatory compact that served to keep

local rates affordable. However, if the LECs are can't recover this expense, the incentives to invest in the network will decrease.

The Commission should not overrule the Separations process in an attempt to lower access charges. State and Federal regulators have always worked together to decide how much of the costs of maintaining and improving the local network should be paid by local rates and how much should be paid by interstate rates as a result of the "separations" process, in which the total cost of the network is "separated" between interstate and intrastate use. Currently, 25% of the costs of the local network are, as a matter of policy, attributed to interstate service. The Federal/State Joint Board set up that allocation without a strict accounting of the direct cost involved to complete the calls because it was guided by a social policy of affordability. This approach views the allocation of costs to long distance as an appropriate way to spread out the cost of local access that serves the entire nation and keeps local rates affordable.

The FCC should not precipitously change that allocation of costs to reduce access charges. This change would put direct pressure on state regulators to allow local rate increases. The current separations agreement should not change until the Joint Board meets and fully considers the options for change and their potential impacts. The Separations Board has been reconvened and will begin meeting in February.

3. The Commission must reform access charges in a way that maintains incentives to invest in the local network

Long depreciation schedules, in essence, provided incentives to keep local rates down. Denial of recovery, or an inadequate recovery mechanism would undermine those incentives. In addition, it would deny companies of funds necessary to respond to market conditions for enhancements and would slow upgrades of the network in high cost areas. Allowing the local phone companies to recover those costs from long distance companies and new competitors of local services reinforces the incentives to upgrade and modernize the network. As competition develops in the marketplace, it is essential that public policy be driven by the goal of achieving ubiquitous, affordable access to the most modern, high capacity, switched digital network that will enable every home and business to send and receive video, voice, data and graphic content.

Requiring the long distance companies to pay a fixed amount for those embedded costs would be appropriate, given the discounted access charges the long depreciation schedules have produced.

Finally, we realize that the Commission has put out a separate Notice of Inquiry (NOI) regarding access by internet service providers to the existing switched network. While we may be providing separate comments under the NOI, we want to take this opportunity to encourage the Commission to consider, within this rulemaking, appropriate incentives to allow for additional capacity to accommodate the continued growth of the internet and expand internet access in rural areas. Specifically, the

Commission should encourage LECs, competitive local exchange companies and access providers to deploy high speed, digital, packet networks to carry internet and other online traffic. This can be done by ensuring that all users contribute to investment in an advanced data network.

For the above referenced consumer organizations:

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ORGANIZATION DESCRIPTIONS

- **American Association for Adult and Continuing Education;** The nation's premier organization dedicated to enhancing lifelong learning for all adult learners through adult education and training. Members include administrators of colleges or universities, state and community agencies, businesses like IBM and large book companies, and the military; all are involved in adult and continuing education
- **Association for Gerontology and Human Development at Historically Black Colleges and Universities;** a non profit organization established in 1980 for the purpose of fostering exchange of resources and sharing knowledge among individuals committed to improving the quality of life for the elderly, especially racial/ethnic minorities and women. The goal of the AGHD-HBCU is to provide activities that will contribute to developing, expanding and improving education, research training and service programs in gerontology and geriatrics. Membership includes educators, practitioners in health and human services, legal professionals, academic institutions, aging service organizations, students and older adults.
- **ConnectMissouri;** a citizen organization led by a steering committee of more than 40 volunteers who joined together around the telecommunications issue to ensure that all Missourians, not just those living or working in downtowns of major cities and rich suburbs, will have access to the new telecommunications technology that will be the hallmark of the Information age. ConnectMissouri participants are a consortium of rural, inner city, disability rights, older adult, and economic development advocates. They have participated in mostly State and some Federal legislative and administrative proceedings over the last four years.
- **Missouri Center on Minority Health and Aging;** The vision of the Missouri Center on Minority Health and Aging is to bring together the resources of the public and private sectors, higher education and the community to enhance the quality of life of Missouri's minority aging population.
- **National Association of Commissions for Women;** a non-partisan membership organization composed of regional, state, county and local commissions created by government to improve the status of women.
- **National Association of Development Organizations;** Since its founding in 1967 NADO had been the leading advocate for a regional approach to economic development. NADO promotes regional economic development programs in America's small cities and rural areas. NADO member, known as economic development districts, councils of governments and regional planning commissions, administer economic and community development programs designed to create jobs and improve the quality of life in America.

- **National Farmers Union;** National Farmers Union, founded in 1902, is a general farm organization whose members joined together to map out and work together for a comprehensive program for rural America. NFU has some 300,000 families in its membership and every state in the union is represented. NFU represent every commodity and type of ag production imaginable including ranchers, grain producers, fish farmers, and fruit and vegetable producers.
- **National Hispanic Council on Aging;** The Council was established in 1980 to meet the needs of the older Hispanic population. In addition to the local chapters around the country, the organization has individual members numbering over 2,000. The national office works on policy issues that affect the older Hispanic population. The local chapters work on local issues that affect Hispanics
- **The National Trust;** The National Trust for the Development of African American Men is a national non-profit organization based in Washington, DC that addresses the development, needs and challenges of African-Americans, especially males, in the areas of health, leadership training, economic development, education, and crime prevention from an African view of the world.
- **National Latino Telecommunications Task Force;** A coalition of private businesses, non-profit organizations and individuals concerned with the role of Latinos in the development of the National Information Infrastructure. NLTT is a project sponsored by the Hispanic Association on Corporate Responsibility.
- **Presidents Club for Telecommunications Justice;** The Presidents Club is a group of leaders of organizations that represent people with disabilities, the elderly,
- **United Seniors Health Cooperative;** USHC is a consumer based organization serving older people in the Washington, DC area as well as across the country. Its primary purpose has been to help older adults understand and take advantage of public and private benefits and services available to them. United Seniors regularly provides Congressional testimony on aging, health and consumer issues.
- **Virginia Public Interest Coalition;** is an informal group of individuals and organizations concerned about the public interest and telecommunications in Virginia. The Coalition was formed to ensure that a consumer voice representing the interests of educators, the elderly, people with disabilities, workers and others is heard during the public debate on telecommunications issues.
- **Universal Service Alliance;** a coalition consisting of diverse organizations and community leaders serving low income, elderly, disabled and rural consumers throughout California. The coalition was formed in response to the California Public Utilities Commission's (CPUC) efforts to introduce competition in local exchange markets without adequate rules to protect and advance universal service. USA has

been an active participant in the CPUC's universal service proceeding and was instrumental in negotiating an agreement with Pacific Bell for the establishment of a Community Technology Foundation as part of the SBC-Pacific Bell merger proceeding.

- **United Homeowners Association;** UHA is a nationwide, non-profit membership based organization of homeowners and those housing professionals an housing related businesses that wish to promote and protect homeownership.